Catalyst

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Government's increasing role in private equity raises eyebrows

Ethos Purple Patch

AVCA Conference reviewed

Low-cost housing and PE solutions

FROM THE EDITOR'S DESK

If one uses a conservative two times leverage, the private equity players in South Africa have been entrusted with roughly R100bn to invest into the South African and African economies. That demonstrates the confidence in this sector to produce alpha as markets come under increasing pressure.

As evidenced by the hot run that Ethos is on, there are clearly still many attractive targets, despite some transactors arguing that a world awash with inexpensive debt and freshly minted "QE" money is making the targets too expensive.

What is concerning, though, is the alarming trend captured in the latest edition of the KPMG SAVCA Private Equity Survey of increased state involvement in the sector. Not the sort that's encouraged via government pensions funds increasing the available pool of capital for seasoned general partners to deploy into the market, but the sort that's generally frowned upon as government seeks to play a direct and competitive role investing through the PIC directly into target companies.

What can be so bad about that, I hear you ask? Well, the primary problem is that the PIC will begin to crowd out private sector players, thereby diminishing the ability of local firms to raise funds. The Government Employees Pension Fund (GEPF) is a defined benefit fund and therefore must look for outperformance as its members are guaranteed a level of pension regardless of the performance of the fund. However, it's questionable whether that will be best achieved using the PIC's team or more experienced players in the market. But one thing it does have is the ability to absorb below private equity market IRRs and therefore it can compete on an uneven playing field with managers who have higher hurdle rates in the private sector.

It also comes against the backdrop of the state seeking to play a greater role in all facets of the economy with frankly dismal results, as Eskom, the SA Post Office, PRASA, SAA and the SABC all attest. Confidence in the state's ability is understandably low. And private equity industry insiders are understandably miffed.

SAVCA released a case study compendium at its conference in February, which runs to 48 pages packed full of the transformational power of private equity in a range of sectors, across all types of business and including a host of private equity general partners.

The report was produced in partnership with EBS Advisory, an environmental and sustainability provider to business and industry. EBS focuses specifically on investors into Africa. The report demonstrates how SAVCA members have implemented responsible investment practices while increasing profitability.

If you haven't read it, I highly recommend it. ◆

Michael Avery

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Gleason Publications

An interesting, although not entirely scientific, measure of the state of the private equity industry is the number of financial journalists who make the annual trip to KPMG Wanooka Place to attend the unveiling of the KPMG-SAVCA Private Equity Industry Survey.

From the invisible to the dead hand

Judging by this year's turnout, the industry continues to display signs of strong return to prominence.

Now in its 15th year, the Survey represents over 90 % of total South African private equity funds by value. For the 2014 calendar year, funds under management represent an impressive compound annual growth rate of 11.3% (excluding undrawn commitments) since the inception of the survey in 1999.

Warren Watkins

Erika van der Merwe

"The overall state of the industry is what I would call steady ship at this point in time. We've gone from R169,3bn to R171,1bn this year which is small increase but given the state of the market we think it's a fair reflection," says Warren Watkins, Head of Private Equity at KPMG. "But what is interesting is the make-up of those funds under management. We're seeing more and more funds deployed into private equity by the government."

"The GEPF took a conscious decision to put more money into private equity and they've stated that they will deploy up to 5% of their total funds under management into private equity. Over the last three to four years we've seen that grow from the R5bn mark to R45,4bn this year," says Watkins. "They're making the traditional fund-of-fund investments into existing PE funds and they're also co-investing alongside funds."

In the last five years Captives-Government (which includes the IDC and other government funds including the GEPF) have increased its share of funds under management from R12,1bn to R68,3bn. During this period, Regulation 28, which governs pension fund investments, increased the permissible allocation to private equity from 2.5% to 10%.

Catalyst has heard some rumblings in the industry about the nature of government's role. In most developed markets governments invest into private equity funds passively, leaving

> "In the last 5 years Captives-Government [which includes the IDC and other government funds including the GEPF] have increased its share of funds under management from R12.1bn to R68.3bn"

the investment decisions up to the private managers. But in South Africa, and the private equity industry isn't unique in this respect, government is now co-investing with private equity funds or even competing directly for deal activity. The fact that the GEPF is a defined benefit fund with its markedly different risk and return profile raises all manner of issues.

A significant portion of the total funds under management, amounting to R54,9bn, are in the form of undrawn commitments. "These funds are yet to be deployed and the private equity fund managers remain active in seeking suitable transactions," says Watkins.

The funds, in the majority, are generalist in nature, i.e. not specific to any particular industry. R13,3bn of the R54,9bn in undrawn commitments can be deployed in Africa and or South Africa, with the remainder dedicated solely to South African investment.

As Watkins pointed out Private equity fund managers in the Captives–Government category for the first time control the largest portion of the total funds under management with R68,3bn, Independents control R66,0bn and Captives-Financial Services R29,2bn.

Total funds raised in 2014 amounted to R6,8bn, 43% of which was raised outside of South Africa. This amount is significantly less than the record total R30,9bn raised in 2013 which was primarily related to the GEPF's significant increased allocation to Private Equity.

Investments made during 2014 year totalled R17,4bn. The majority of these investments are for new as opposed to follow-on investments, reversing the previous trends seen in 2011 and 2012. The average deal size for the new investments during 2014 increased to R153m, from R64m. "This signals the strong return to the acquisition market of some of the larger private equity funds," says Watkins.

The realisation market in the South African private equity industry returned the highest amount of capital since 2011, with funds returned to investors increasing by 44.7% from R9,8bn during 2013, to R14,2bn in 2014. There was an implied times money multiple of 2.3, which is a significant increase on the 1.6 in 2013 and the 1.2 in 2012.

Black Economic Empowerment (BEE) investments remain a significant portion of the M&A activity in South Africa. "Many of the private equity transactions today have a BEE component to their structure, which assists in facilitating BEE shareholdings," says Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA). Of the R17,4bn invested in 2014, R12,4bn was classified as investments made into entities that are at least black influenced. "Employment equity with private equity funds is also a significant consideration, and there has been an increase of 21% in black staff members from 2013 to 2014," says Van Der Merwe.

Returns in the private equity market, over the 10 and 5-year historical periods have averaged 19.1% and 17.7% respectively. Both of these returns exceed the JSE All Share Index. Three-year returns reflect a return of 14.1% compared to the JSE All Index share index of 19.5%. "Many of the investments are still to be realised and may reflect conservative accounting valuations. Private Equity has historically reflected consistent returns above equity markets, a fair return for the perceived risk, but an increasingly attractive market for the pension fund," says Watkins. "In summary, the 2014 survey shows an industry in a steady state, with fund managers actively looking for relevant acquisitions."

"Private equity has seen a significant increase in investment from the government sector over the past five years, and the growth effect on portfolio companies, given historical results achieved by private equity fund managers, should be very positive,'" says Van Der Merwe. ◆

The team over at 35 Fricker Road are enjoying what can only be described as a purple patch of deal activity highlighted by three investments in the second quarter to go along with one in the first.

Purple patch reveals assiduous ethos

Sleep must be a rare commodity at Ethos these days but it's capturing the imagination of investors and management teams alike.

Sometimes thinking about the box is thinking outside the box

Ethos concluded the strategic acquisitions of the Tissue and Corrugate divisions from Nampak in the record quarter.

The divisions have become autonomous entities under Ethos' control, reflecting separate, new leadership and operating structures. And both businesses have been rebranded to reflect the new vision as Neopak (corrugate) and TwinCare (tissue).

Critically, Ethos has also announced a number of strategic appointments at Neopak and TwinCare; the first time that the Firm has actively introduced new management as part of an acquisition since 2006.

Early last year, Ethos identified Nampak's corrugate division as a business requiring lift.

"The business was two-dimensional," recalls Richard Fienberg, Ethos' Value-Add Partner. "While robust and reputable, it lacked vitality and purpose."

Richard Fienberg

Due diligence confirmed significant opportunities to stimulate innovation and inject fresh thinking into customer orientation and manufacturing excellence.

"However, key to realising our strategic ambition was the introduction of executive leadership," says Fienberg. "We sought expansive thinkers and found Kevin Clayton and Brian Jacobs to shape and implement the operational strategy."

"Our approach shifted from thinking about the box to believing we could animate it," Feinberg adds.

Together, the management team and Ethos share a vision of a revitalised, innovative packaging company.

Fienberg believes the growth agenda will lift Neopak to new heights, and that thinking differently about the ordinary pushes boundaries. "Institutionalising innovation drives long-term success," he says. "That's why we encourage our teams and management to think detail and dream big."

Spotting potential is one thing. Believing in potential is quite another.

Last year, Ethos also identified latent opportunity within Nampak's Tissue division. Following a comprehensive due diligence process, it saw something that others didn't. "We saw loyalty," recalls Fienberg. "Employee loyalty and – critically - customer loyalty to the iconic South African Twinsaver brand. Loyalty can't be bought, which is why we sought to invest behind it."

Hence, Ethos pursued an acquisition based on the conviction that it could amplify past successes by injecting new leadership capacity, strategy and resources.

"Vitally, we also envisaged a new strategic direction: the shift from a packaging, manufacturing-led company to a consumer-led, FMCG brand powerhouse," says Fienberg. "Our belief in this vision was so compelling that we were able to attract and appoint seasoned executives Garth Towell, Joanne Gould and Dion de Graaff to lead this revitalisation, alongside Ethos' established value-add team."

Shaun Zagnoev

Eaton Towers signed the first independent tower deal in Egypt, with the purchase, leaseback and management of over 2000 Mobinil towers.

As Ethos partner, Shaun Zagnoev summarised: "Today we are buying machines and products. Tomorrow we are investing in people and brands."

Ethos' sights are firmly set on converting TwinCare's potential into reality.

"Ethos identified both investment opportunities in 2014 and actively pursued them given our confidence in the business fundamentals. Drawing on the expertise of our value-add team, led by [Ethos partner] Richard [Fienberg], we believe we can bring something new to each business - something exciting - and catalyse meaningful growth," says Shaun Zagnoev.

Incoming TwinCare CEO, Garth Towell, agreed. "TwinCare is about to commence an exciting journey of reinvigoration.

While potential abounds, opportunities to invest in mature companies, of scale, that can grow across the continent by capturing the compelling consumer story are rare.

Twinsaver is a legendary South African brand and forms the bedrock of the business. Together with Joanne, Dion and the broader team, we believe we can rapidly migrate TwinCare into a leading FMCG business. Ethos' capital, strategic ambition and operational expertise will come to bear," he said. "Together, we intend to grow the brand, improve our customer experience and ultimately expand the product range."

Expanding horizons.

Picture this.

You are standing on the banks of Lake Victoria – Africa's largest lake – eighty kilometres east of Kampala. Insects drone. A hippo breaks the water's surface and submerges again. Local fishermen cook the day's catch on open coals sending sparks dancing into the fiery sunset.

A cell phone rings. And each fisherman reaches into his pocket!

This snapshot captures a picture of the abundant opportunity in Africa; teeming potential on the shores of economic evolution.

While potential abounds, opportunities to invest in mature companies, of scale, that can grow across the continent by capturing the compelling consumer story are rare.

That's why when Eaton Towers – a leading pan-African, independent provider of shared telecom towers – required expansion capital, Ethos was first in line to snap up the opportunity.

The Ethos-led consortium, comprising Ethos Fund VI, Hamilton Lane and HarbourVest, contributed US$150m into the $350m of new equity raised by Eaton from new and existing shareholders.

Ngalaah Chuphi

This fresh round of growth capital facilitates Eaton's acquisition of multiple cellular towers across Africa as the cellular operators look to reduce their cost base in a rapidly changing cellular communication market. Existing shareholders Capital Group Private Markets, Development Partners International (DPI) – a leading pan-African private equity fund – and management are joined by the Ethos Consortium and Standard Chartered Private Equity.

"This is an exciting transaction for Ethos; it is our first pan-African deal in Fund VI plus we've been able to partner some Fund VI investors - Hamilton Lane and HarbourVest - in our consortium," says Ethos partner, Ngalaah Chuphi. "Together, we are committed to Eaton's growth agenda to become the most geographically diversified tower company on the African continent with presence in very exciting markets from a growth perspective. This investment is another important step to bridge the African digital divide. The successful roll out of world-class mobile services is transformational for Africa. Investments of this type form the backbone of Africa's renaissance."

On the back of the equity raise, Eaton Towers signed the first independent tower deal in Egypt, with the purchase, leaseback and management of over 2000 Mobinil towers.

The agreement with Mobinil, part of the Orange Group, a leading mobile operator in Egypt, consists of the purchase of approximately 2,000 towers with a 15-year leaseback contract for the operation and maintenance, and additional build out of new sites.

Terry Rhodes, CEO Eaton Towers, was excited by the transformational elements of the equity raising and expansion into Egypt.

"We are delighted to sign the first purchase and leaseback tower deal in Egypt," said Rhodes. "Egypt is the second largest mobile market in Africa and we will invest over $200m to provide world-class shared infrastructure to help the Egyptian operators provide better coverage and data services to their customers.

Once the Mobinil deal and the agreements with Bharti Airtel for 6 countries signed and announced last September are completed Eaton Towers will be operational in eight countries, representing the most diversified portfolio of shared infrastructure on the African continent."

Eaton Towers has just closed a new investment in Ghana, giving it two major anchor tenants in Airtel and Vodafone and the necessary scale to compete successfully. This is the first close of the six-country portfolio (Ghana, Uganda, Kenya, Burkina Faso, Niger and Malawi) purchase signed with Bharti Airtel is September 2014.

Once the deals are completed, Eaton Towers will be operational in eight countries.

When Stuart MacKenzie said, at this year's SAVCA private equity conference in Stellenbosch, that Ethos' deal pipeline was healthy and the outlook for investment activity robust, he must have been bristling with self-restraint. ◆

Will Jimerson, co-founder of Sandton-based private equity firm Musa Capital, a firm with 20 years success in impact investment across the African continent, believes that two vital steps are missing from combined government and private sector initiatives focused on increasing stock of low to middle income housing.

Public private equity partnerships house the solution

"Although very positive work has been done to help finance the building of low to middle income housing via the establishment of organisations such as NURCHA, a government institution geared to assist mostly small, black owned housing project developers and construction companies, there is still little accessible funding available to help people buy the homes these companies will build. The market for such homes is people who earn too much to qualify for RDP housing but also don't meet the criteria for a conventional bond or mortgage. They can afford the repayments for low to middle income housing but fall outside of the banking system for one or other reason," explains Jimerson.

Catalyst spoke to Jimerson about his messy public spat with the Bakabung, the tribal partners in the Wesizwe platinum mine in Rustenburg, and how lessons learned in the provision of low-income housing to mining communities have inspired and model that is gaining traction and offering a solution the low-cost housing conundrum in the country.

Building bridges with the Bakubung

The differences between two Bakubung leadership factions' dates back to 2007, and centred on a considerable portion of the community's stake in JSE-listed Wesizwe, which is building a platinum mine on Bakubung land, and had been placed into an intricate web of companies by Musa Capital.

It had been used as collateral to raise funding from the Industrial Development Corporation (IDC) and Deutsche Bank.

"It was an ordeal of note," says Jimerson frankly. "But I think it's endemic and representative of some of the problems we have on the continent. Trying to strike a balance between capital and free markets so to speak, on the one hand, and the idea that those resources go towards the benefit of the communities in the areas where we operate."

Jimerson said that the entire issue boiled down to communication and marrying western and developing worlds.

"Ultimately the solution was communication. There may be many areas of discontent around the performance of our government here. In this case the solutions in a large part was driven by government to get the parties around the table. Secondary was the leadership of the community. One of the large challenges we face as service providers is that obviously we operate in a world of capital markets and the Companies Act and so forth, but we operate in an environment where things like traditional law also have a role to play. And despite our track record we were ignorant to some of the nuances on how to engage with the community and we frankly had to be more conscious of the realities of community dynamics. We had some schools fees that we paid but when we signed our agreement last May we realised that we all want the same thing and that's for the benefit of the community."

: "In effect the solution lies in working the consumer out of the debt spiral and into a position where they can obtain financial assistance for an appreciating asset and away from the all the credit life policies, multiple funeral polices and micro loans that bedevilled the mining sector labour force in particular."

Will Jimerson

Building housing solutions

One of Musa's investee companies, Skywards Housing Group (formerly known as Matlapeng), which has been building affordable housing in the Northern Cape for several years, has just been awarded a R25m facility by NURCHA for its first foray into the Western Cape market with two projects for the middle income market.

"We see the provision of low cost housing as a challenge and a great opportunity," explains Jimerson. "We're still very much a country of two economies: in one you have the lower income earners and in the other the middle to upper income earners and trying to meld those two has been quite a challenge."

Jimerson believes the traditional financial institutions that are necessary in this system historically, are not equipped to provide products and solutions that are relevant to that low-income market

"One of the big challenges we're finding is that once a house has been built affordably, be it a three hundred or four hundred thousand rand unit, we have people who on paper have the gross income to qualify for a home loan but the take-home amount because of all the deductions – be it from credit accounts, clothing accounts, micro loans – isn't enough."

Essentially Jimerson is pointing to the spiralling debt problem in and around mining and other low-income labour attracting towns, recently exposed by businesswoman Wendy Appelbaum, who was the driving force behind a case to assist her workforce on her wine farm, De Morgenzon.

In July, Justice Siraj Desai of the High Court in Cape Town declared the emoluments attachment orders (EAOs, also known as garnishee orders) in question "unlawful, invalid and of no force and effect". He also found that sections of the Magistrates' Court Act are "inconsistent with the Constitution".

It's a debt problem

In his judgment, Desai raised two sets of objections. On the one hand there is insufficient "judicial oversight" over EAOs when they are issued by a clerk of the court without the involvement of a magistrate. The Magistrates' Court Act makes provision for such a procedure, but only if debtors give their written consent. However, Desai found debtors are routinely influenced to sign forms that they do not understand, or that their signatures are blatantly forged.

He strongly criticized what he called "predatory lending practices by credit providers" and urged the Ministers of Justice and of Trade and Industry, as well as the National Credit Regulator, the Human Rights Commission and the Law Society to "take whatever steps they deem necessary to alert debtors as to their rights in terms of this judgment."

Desai's other main objection was that orders of this nature are often obtained in courts far removed from the applicants homes and places of work. He found that this "effectively denied" debtors the "right to approach the courts" and was also based on a misinterpretation of the Magistrates' Court Act.

The ruling outlines the circumstances that led to the predicament of the debtors in question. They are described as "low income earners" supporting "themselves and their families on salaries of between R1 200 and R8 000 per month". They got loans to keep the pot boiling – "at interest rates of 60% per annum".

"The individual applicants were granted the loans with the repayments at times exceeding 50% of their monthly income. The affordability assessment was either perfunctory or non-existent. These were quite obviously reckless loans and unsurprisingly the applicants defaulted on their repayments."

Desai argues, "It may be that a debtor would readily concede that he has defaulted on his payment of the debt. However, it is most unlikely that he would knowingly and willingly agree to pay instalments he cannot afford, have the instalments deducted from his salary and agree that the matter be decided in a court which he cannot hope to access should he wish to mitigate the harsh consequences of the EAO."

Jimerson believes the solution to this problem is to take a holistic approach though attacking the entire value chain.

"By only providing the housing without the finance they stand empty, by only providing end-user finance, you may have finance that's not applied for or not distributed because people don't qualify."

In effect the solution lies in working the consumer out of the debt spiral and into a position where they can obtain financial assistance for an appreciating asset and away from the all the credit life policies, multiple funeral polices (you only die once, right!) and micro loans that bedevilled the mining sector labour force in particular.

"You can either do it all in-house," explains Jimerson, "where you rehabilitate the end-user, you provide the finance and your supply the housing stock or you can partner and work in tandem with government and industry."

The story of Musa's evolution with Kumba over the years edifies the types of interventions that seemingly have some traction.

"One of the things we've done is to build several thousand homes for the employees of Kumba in the Northern Cape, and in Hotazel for BHP Billiton. We Built phase 1 circa 2002/3. We had 100% take-up of end-user bonds for every house that we built. Yet in phase 4C, which we just completed in December last year, we had less than 10% of the employees who applied for end-user loans receive them."

Jimerson acknowledges that there's been a collapse in the iron ore price but points out that Kumba's share scheme was one of the more successful and they've paid out handsomely and there's been above inflation wage growth over that period too.

"Musa now builds the house, the end-user takes occupation of the house immediately under a rental model. And part of that rent-to-own process is a year to 18 months of rehabilitation. The home is received at market rent with a slight discount and structured in a way in which you gradually build the capacity to pay a higher rent and over time that higher rent allows you to essentially escrow some of that rental amount towards the purchase of the home."

Musa has diversified through Skywards Housing Group over the course of the year and has launched a 300 unit project near Paarl, in the Western Cape. And is working now with a local municipality in Caledon where the government is providing the land and Musa is providing this solution for local government employees

Some kinks still to iron out

An additional problem is that, in order to qualify for funding and project management assistance from NURCHA, project developers and construction companies have to have pre-sold all houses in a given development.

Jimerson says that government's establishment of NURCHA as a means of encouraging developers to involve themselves in what is usually seen as an unprofitable sector of the market is to be lauded.

"NURCHA contributes to growth of the smaller companies, which enables the contractors to build up a track record of success, credit, and banking history which, in turn, enables them to move on to other and more varied funding programmes. NURCHA therefore represents a huge step in the direction of transforming the housing and construction sectors, because it gives essential support to black owned developers in terms of financial stability. It also does a critical job of boosting housing stock levels, of which there simply isn't enough to meet the needs of the majority of South Africans," he says.

"But, as we've just seen with Skyward, the upfront investment in land acquisition, marketing, sales, design, and project management required before NURCHA is able to make finance available makes it almost impossible for smaller developers or those without the infrastructural and operational support that we have been able to give Skyward to get into the race. In other words, we are in the fortunate position of being able to partner with NURCHA rather than being dependent on it for Skywards' growth. However, as it is currently structured, NURCHA can help only those developers already able to help themselves. Those wanting to break into the market still find it extremely difficult. And, because there is no finance available to owners who fall outside of both the RDP and conventional housing bracket, there is actually no market for the empowerment developers NURCHA is designed to assist."

Clearly there are still kinks to iron out in the system but it appears that at least one solid public private equity partnership model is starting to make sustainable inroads into the provision of low-cost housing. ◆

Private equity in Africa is thriving. That was the take-home message from this year's AVCA (African Private Equity and Venture Capital Association - the pan-African industry body that promotes and enables private investment in Africa) conference held at the Savoy, in London, in late April.

If you want to go quickly go alone, if you want to go far, go together . . .

Raj Kulasingam

At its most basic, PE is about how you can use money, expertise and relationships to grow businesses – surely capitalism at its most raw. However PE has had its share of detractors.

For example, in the US, critics say that PE make money the wrong way — buying "target companies", making people redundant, piling on debt and selling the remnants in tidied up boxes – which by then are doomed to fail. To make matters worse, private equity firms get tax breaks, paying 15% on profits instead of 35%.

> Africa is at a different stage of growth to the developed world and growth capital is what Africa needs and PE provides.

But the industry and its defenders say it is a strong creator of jobs and value, and a vital source of outsized and diversified returns for pension funds, university endowments and other investment pools that serve ordinary people.

Africa is at a different stage of growth to the developed world and growth capital is what Africa needs and PE provides. Africa needs all forms of capital so PE capital in Africa has been welcome and has not had much of the criticism (at least so far!) that PE has had in the developed world.

Africa PE is young ... and fun

The Africa PE industry is still young and this youthfulness comes through in its members and their attitudes. While there is obviously competition between PE houses, advisers, funders and other professionals, there is still a sense of camaraderie and cooperation with all involved. RunaAlam (DPI) hit the nail on the head when she opened AVCA conference by quoting the African proverb:

If you want to go quickly go alone, if you want to go far, go together...

This diverse membership is united by a common purpose: not only to make money (...a big driver!) but also to contribute to Africa and be part of the Africa growth story. That's what is exciting about working on the continent compared with other regions. And perhaps overlaying all of this is that the Africa PE industry knows how to have fun.

Kulasingam

Robbie Brozin (the founder of Nandos) spoke about how he grew Nandos from one small restaurant to the global chicken piri-piri giant of today. An inspiring story. He had some great one-liners about doing business and the one that stuck was:

*My vision was always to have fun and make money and if you are not happy in your job you should just *!!* off and do something else.*

AVCA in 2014 into 2015

Nick Plant who heads PE at Dentons shared some of the key points from last year's to this year's conference.

"Private equity is a bifurcated market in Africa," explained

Plant. "On the one hand the large ticket deals in energy, telco and financial services transactions with deal values in excess of US$100m. All other businesses typically have deal values of between $1mand $30m. There is very little in the middle."

This hasn't changed and Plant says a big theme this year is the need for more venture capital funding to grow these smaller companies into the PE deal size companies of tomorrow.

Nick Plant

There were so many key points at AVCA that it has been difficult to choose which ones to highlight. Miles Morland of Blakeney Capital gave a very entertaining presentation. Reports of his more memorable quotes can be found on Twitter including the following, which bordered on controversial:

"I would rather trust a Nigerian on a handshake than an American on a signed contract."

Plant mentioned five key issues that PE investors must take into account when investing in Africa namely:

1. Availability and desirability of double tax treaty relief
2. Availability of bilateral investment treaties
3. Existence of exchange controls
4. Local content ownership requirements (especially in the oil & gas sectors)
5. Speed of incorporation of the corporate structure

"Larger transactions use acquisition structures that variously include Dutch or Mauritius entities and sometimes also Luxembourg and Cayman entities," explains Plant. "Structure and diligence is key to doing deals anywhere and no different and no change for Africa."

"However, the overarching issue for PE investors is quality of the management team and alignment with the entrepreneurs."

So where to for PE in Africa?

Of course, PE in Africa is not all a bed of roses. There will always be the good, the bad and the ugly in all parts of the world. It's being able to see beyond the hype and the myths that is key.

Ultimately what is driving growth and PE in Africa is that what Africa wants is what the world wants. Africans have the same aspirations as anyone else. What is needed is the investment to match these aspirations, which is where the opportunity is.

The good news from AVCA is that the overall outlook for PE in Africa is positive but the question is whether this can be sustained to match the ambitions of Africans. Finishing on a positive note Johnny el Hachem, CEO of Edmond de Rothschild said, "We always believe in Africa, [that] our investments can make money there."

Growth needs investment, which needs stability, leadership and the right economic and regulatory framework and policies. That's the challenge for Africa. ◆

Kulasingam is Dentons Senior Counsel and infrastructure project specialist

This is an amended version of an article that was first published in the July 2015 edition of Financial Nigeria magazine, a monthly development and finance journal.

Private equity firms exited 40 companies between 1 January and 31 December 2014, a 38% increase from 29 exits in 2013, and the largest total since 2007, when there were 34 exits.

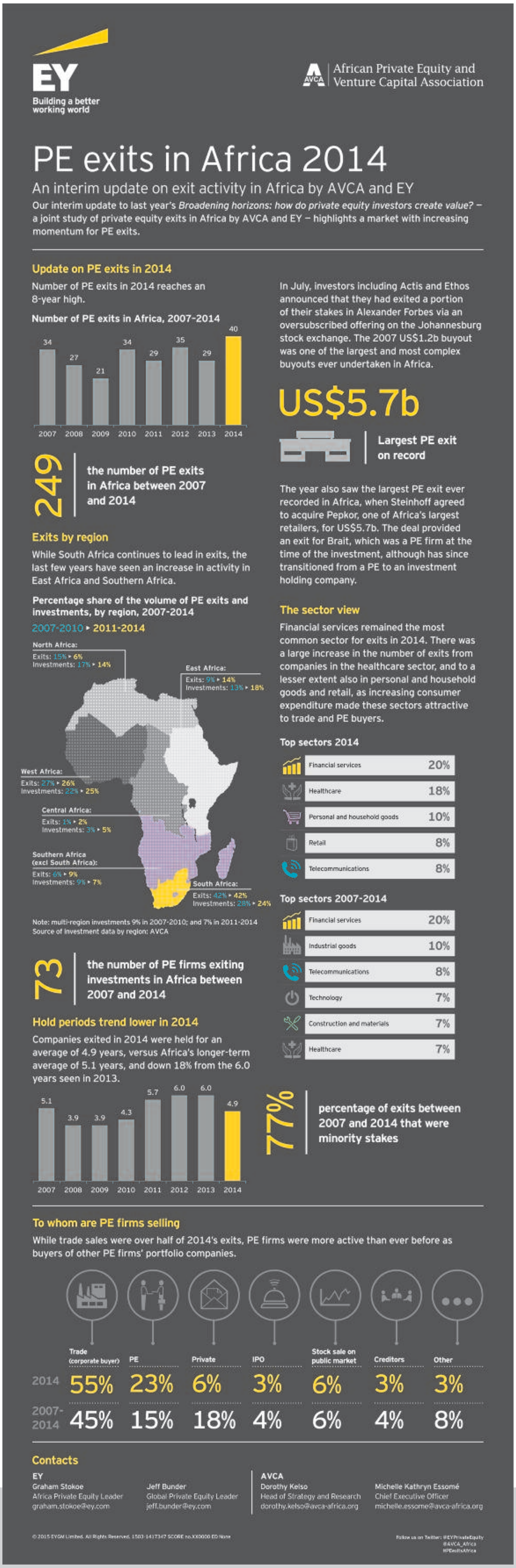
African exit window wide open

Private equity exits in Africa reached an eight-year high in 2014, and strong activity should continue as more companies enter the period where an exit becomes increasingly imperative, according to data from EY and the African Private Equity and Venture Capital Association (AVCA).

The update to the 2014 EY and AVCA study *Broadening horizons: how do private equity investors create value?* highlights a strengthening market for private equity exits in Africa. Private equity firms exited 40 companies between January 1 and December 31, 2014, a 38% increase from 29 exits in 2013, and the largest total since 2007, when there were 34 exits.

"Africa's exit opportunities have continued to improve as the market matures," says Graham Stokoe, EY Africa's Private Equity Leader.

"While exits remain a chief concern for firms in the region, the question now facing many private equity firms in Africa and many



other emerging markets is: 'Does the calculus change in an environment of moderating and in some cases uneven growth adversely impacting the pace of investments?' So far the answer has been no."

According to Dorothy Kelso, Director, Head of Strategy and Research at AVCA, this is a further sign of steadily maturing private equity market across the continent.

"It is also encouraging to note the broadening of exit routes over the past year with increasing options available for investors to realise value," says Keslo. "The continued momentum emphasises the enormous potential of African private equity, and with increased intra-African investment, we expect this is unlikely to slow down in coming years."

Private equity is playing an increasingly important role in Africa's growing economy. The past several years have seen a marked increase in investment activity, as local firms see more attention from global limited partners, and global funds dedicate new resources to the region in the form of talent and capital. As a result, the pipeline of potential exits is growing more rapidly than at any point in the region's history.

"Showing healthy exits is an increasingly important issue for private equity in Africa," says Stokoe. "Last year proved that private equity firms could successfully exit their portfolio investments and return cash to limited partners. We expect this exit activity to continue increasing as there are still a number of companies that private equity invested in during the PE investment boom in 2007 and 2008, and then there are a number of newer PE funds that need to show increased exit activity as they raise second and third funds."

Graham Stokoe

Financial services remained the most common sector for exits in 2014 (20%). Health care was the second-most active sector in 2014 (18%), followed by personal and household goods (10%) and retail (8%), as increasing consumer expenditure made these sectors attractive to trade and private equity buyers.

Secondary buyouts accounted for nearly a quarter (23%) of exits in 2014, compared with 15% overall between 2007 and 2014, underscoring the increasing importance of PE-to-PE deals and the growing PE ecosystem in Africa.

South Africa continues to lead in exits, with 42% of all activity between 2011 and 2014. The West Africa region was the second-most popular region for exits during that period (26%), while East Africa's exit activity was 14%, increasing from 9% during 2007 to 2010 as the market matures. ◆

Infographic courtesy of EY

International

Business Insider reports that private equity in the US is getting ready to cash in. In July, three companies that were targets of some of the largest-ever leveraged buyouts — Univision, the Spanish-language broadcaster; technology company First Data; and supermarket Albertsons — filed to go public.

According to the report the companies are also notable because they've been owned by private-equity funds for much longer than anticipated — as much as a decade in Albertsons case.

In the wake of the financial crisis, so-called "hold times" at private equity firms increased to an average of 5 to 9 years for a North American company compared to an average time of 4.2 years before markets crashed, data from Preqin shows.

Hold times are the duration a private equity-backed company sits in its owner's portfolio. Hold times have also irked some private equity investors like state pensions after revelations of fee abuse at some of the industry's top firms. ◆

Reuters broke the news that Jerome Kohlberg Jr., a founder of investment firm Kohlberg Kravis Roberts & Co and a pioneer of the leveraged buyout, died on June 30th at his home in Martha's Vineyard, Massachusetts, aged 90.

His son, James, said the cause of death was cancer.

Kohlberg began working at investment bank Bear Stearns & Co in 1955, where he mentored younger colleagues Henry Kravis and George Roberts. The three formed their own firm, KKR, in 1976.

It is best known for taking over tobacco-and-food conglomerate RJR Nabisco, chronicled in the book "Barbarians at the Gate: the Fall of RJR Nabisco," a deal that heralded an industry of large, often hostile, corporate takeovers.

Kohlberg quit KKR in 1987, a year before that deal was completed, and moved away from large-scale leveraged buyouts toward smaller deals reached on friendly terms under a new entity, Kohlberg & Company.

"Jerry was a man of integrity and moral courage," Roberts said in a statement to Reuters. "Jerry cared about people and gave freely of his time and wealth. Henry and I are proud that our firm's name is Kohlberg Kravis Roberts."

Kravis called Kohlberg "a real visionary, having played an important role in developing the private equity model in the 1960s" and praised his philanthropic work.

Kohlberg was born on July 10, 1925, and grew up in New Rochelle, New York. He attended Swarthmore College in Pennsylvania and served in the US Navy before graduating from Harvard Business School and Columbia Law School, according to a biography on his company's website. ◆

National news

For the ten years to March 2015, the cumulative annual growth rate for South African private equity was 20.5%, net of all fees and expenses, once again outperforming major listed-market indices for the same period.

The March 2015 RisCura-SAVCA South African Private Equity Performance Report shows that this asset class outperformed the JSE's All Share Total Return Index, which delivered 18.1%, as well as the Shareholder Weighted Total Return Index, which delivered 19.1%. The Financial and Industrial index marginally outperformed private equity, at 21.6%.

The March 2015 annualised ten-year return of 20.5% is up from the December 2014 ten-year return of 19.1%, which in turn is an improvement on the September 2014 ten-year return of 18.5%. ◆

The Sunday Times reports that the private equity industry could find itself in the Financial Services Board's sights once the regulatory body concludes the drafting of a code of conduct for the sector.

Private equity funds are not subject to specific regulations and there is no government agency that exercises regulatory oversight over them, according to Johan Loubser, a director at ENSafrica. ◆

PRIVATE EQUITY DEALS H1 2015 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	Old Mutual plc from The Abraaj Group, AfricInvest and Swedfund	a further 37,3% stake in UAP Holdings	Standard Bank; Merrill Lynch; Nedbank Corporate and Investment Banking; Cliffe Dekker Hofmeyr; Webber Wentzel; Coulson Harney	$155,5m	Jan 26
Acquisition by	One Thousand & One Voices	stake in RedSun Dried Nuts & Fruit		R70m	Feb 2
Acquisition by	Nedbank Capital Private Equity	effective 32.9% stake in GloCell	Nedbank Corporate and Investment Banking	undisclosed	Feb 11
Disposal by	Nampak to Ethos Private Equity	Recycling business	UBS; Webber Wentzel	R76,3m	Mar 25
Acquisition by	AgriGroupe	85% stake in Clean Energy Africa Investments	vdma	R310m	not announced Q1
Acquisition by	Spirit Capital, MIC Capital Partners and management	Multiknit	Werksmans; ENSafrica	not publicly disclosed	not announced Q1
Disposal by	Pioneer Foods to Libstar	shares in Maitland Vinegar	Cliffe Dekker Hofmeyr; Webber Wentzel	not publicly disclosed	not announced Q1
Disposal by	Vantage Capital and the Netherlands Development Finance Company	stake in Safripol	Werksmans	not publicly disclosed	Apr 8
Acquisition by	Grovest	stake in SMEasy		undisclosed	Jun 5
Acquisition by	Bounty Brands from vendors including Spirit Capital (50% stake)	Annique Health and Beauty	Werksmans; Cliffe Dekker Hofmeyr	undisclosed	Jun 17
Acquisition by	Bidvest from Ethos Private Equity	Plumblink	Standard Bank; Rand Merchant Bank; Webber Wentzel; Werksmans	not publicly disclosed	Jun 18
Acquisition by	One Thousand & One Voices	minority stake in Beefmaster		undisclosed	Jun 26
Acquisition by	Investec Asset Management	stake in IDM Group	Bowman Gilfillan	undisclosed	not announced Q2
Acquisition by	Acorn Agri	additional stake in BKB - total stake now 14%		undisclosed	not announced Q2
Acquisition by	Leaf Capital Private Equity	Strategic stake in VHF Holdings (Vital Health Foods)		undisclosed	not announced Q2

PRIVATE EQUITY DEALS H1 2015 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Africa	Issue	Eaton Towers : new equity resources from existing shareholders and a new consortium led by Ethos (comprising Ethos, Hamilton Lane and HarbourVest) and Standard Chartered Private Equity	Webber Wentzel	$350m	Apr 30
Cote d'Ivoire	Acquisition by	Amethis Finance and the National Bank of Canada of a 26.24% equity stake in NSIA Participations from ECP Africa III PCC		undisclosed	Mar 26
DRC	Investment by	XSML in Ets Lejack		undisclosed	Jun 13
Egypt	Disposal by	Abraaj Group of its stake in ECCO Outsourcing to Saham Services		undisclosed	Mar 10
Ethiopia	Acquisition by	Ascent Capital of a stake in Medpharm Holdings Africa		$2,5m	Feb 10
Ghana	Investment by	Advanced Finance and Investment Group (AFIG) in Primrose Properties Ghana		undisclosed	Apr 23
Kenya	Disposal by	Helios to Norfininvest of half its stake in Equity Bank (12.22% sold)		undisclosed	Jan 16
Kenya	Investment by	Phatisa African Agriculture Fund in General Plastics	Coulson Harney, a member of Bowman Gilfillan Africa Group	$14,2m	Jan 28
Kenya	Financing by	Emerging Capital Partners / Maarifa Education of The Institute of Certified Public Accountants of Kenya College of Accountancy (ICPAK)	Coulson Harney, a member of Bowman Gilfillan Africa Group	$17,5m	Feb 24
Kenya	Acquisition by	Fanisi Capital of a stake in European Foods Africa		$2,1m	Apr 9
Kenya	Acquisition by	NSSF Uganda of a 2.44% stake in Equity Group from Helios	African Alliance Uganda; Anjarwala & Khanna Advocates; MMAKS Advocates	undisclosed	Jun 24
Mauritius	Acquisition by	LeapFrog Investments of a minority stake in AFB Mauritius		$25m	Feb 26
Mauritius	Acquisition by	Amethis Finance of a 17% stake in CIEL Finance		undisclosed	Feb 26
Nigeria	Acquisition by	AfricInvest of a minority stake in Elephant Group	Standard Chartered Bank	undisclosed	Mar 24
Nigeria	Disposal by	Verod Capital of its 33% stake in HFP Engineering		undisclosed	Mar 23
Nigeria	Disposal by	Verod Capital of part of its stake in GZ Industries		undisclosed	Mar 23
Nigeria	Investment by	Omidyar Network in Hotels.ng		undisclosed	May 26
Rwanda	Acquisition by	Atlas Mara of a 45% stake in Banque Populaire du Rwanda		$22,5m	Apr 27
Uganda	Acquisition by	8 Miles of a 42% stake in Orient Bank from Keystone Bank	KPMG (Int); Clifford Chance	undisclosed	Feb 24
West Africa	Acquisition by	CDC of a stake in Miro Forestry (Ghana and Sierra Leone)		$15m	Mar 30
Zambia	Acquisition by	Enko Capital Managers of a minority stake in Madison Financial Services		undisclosed	Mar 4
Zambia	Investment by	Abraaj in the Lusaka Trust Hospital	Coulson Harney, a member of Bowman Gilfillan Africa Group	$1m	May 31
Zimbabwe	Disposal by	Atlas Mara of it's 10.1% stake in Brainworks Capital		$8,72m	Jun 18

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